SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
August 14, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2012, or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to ________

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	87-0345941 (I.R.S. Employer Identification No.)
5300 South 360 West, Suite 250 Salt Lake City, Utah (Address of principal executive office)	84123 (Zip Code)

(801) 264-1060
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No[X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	9,639,121
Title of Class	Number of Shares Outstanding as of August 14, 2012

Class C Common Stock, $.20 par value	10,132,749
Title of Class	Number of Shares Outstanding as of August 14, 2012

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]
(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED JUNE 30, 2012

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

Assets	June 30, 2012	December 31, 2011
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$131,592,564	$127,579,087
Equity securities, available for sale, at estimated fair value	5,882,433	6,299,392
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of $4,699,410 and $4,881,173 for 2012 and 2011	97,975,694	115,155,967
Real estate held for investment, net of accumulated depreciation of $4,352,818 and $4,189,641 for 2012 and 2011	4,272,796	3,786,780
Other real estate owned held for investment, net of accumulated depreciation of $2,420,635 and $1,810,238 for 2012 and 2011	56,127,842	46,398,095
Other real estate owned held for sale	5,998,740	5,793,900
Policy and other loans, net of allowances for doubtful accounts of $461,775 and $427,136 for 2012 and 2011	17,818,019	18,463,277
Short-term investments	5,562,045	6,932,023
Accrued investment income	2,282,826	2,323,080
Total investments	327,512,959	332,731,601
Cash and cash equivalents	45,476,876	17,083,604
Mortgage loans sold to investors	72,674,336	77,339,445
Receivables, net	12,431,419	9,934,075
Restricted assets of cemeteries and mortuaries	3,697,483	3,392,497
Cemetery perpetual care trust investments	1,965,244	1,810,185
Receivable from reinsurers	14,351,927	7,484,466
Cemetery land and improvements	11,096,723	11,105,809
Deferred policy and pre-need contract acquisition costs	37,025,433	36,237,069
Property and equipment, net	9,830,193	9,300,185
Value of business acquired	10,524,072	11,020,834
Goodwill	677,039	677,039
Other	6,346,834	3,022,113
Total Assets	$553,610,538	$521,138,922

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

	June 30, 2012	December 31, 2011
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	$396,253,821	$381,595,568
Unearned premium reserve	4,942,074	5,030,443
Bank and other loans payable	27,836,728	25,019,119
Deferred pre-need cemetery and mortuary contract revenues	13,280,079	13,140,483
Cemetery perpetual care obligation	3,065,606	2,983,077
Accounts payable	2,717,565	2,672,479
Other liabilities and accrued expenses	19,086,401	14,456,887
Income taxes	17,749,085	15,010,279
Total liabilities	484,931,359	459,908,335
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 9,638,798 shares in 2012 and 9,638,798 shares in 2011	19,277,596	19,277,596
Class B: non-voting common stock - $1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - $0.20 par value; 15,000,000 shares authorized; issued 10,135,976 shares in 2012 and 10,135,976 in 2011	2,027,195	2,027,195
Additional paid-in capital	19,483,976	19,487,565
Accumulated other comprehensive income, net of taxes	2,594,453	654,443
Retained earnings	27,801,838	22,546,623
Treasury stock at cost - 1,094,204 Class A shares in 2012 and 1,198,167 Class A shares in 2011	(2,505,879)	(2,762,835)
Total stockholders' equity	68,679,179	61,230,587
Total Liabilities and Stockholders' Equity	$553,610,538	$521,138,922

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Insurance premiums and other considerations	$12,281,896	$11,893,298	$24,869,684	$24,585,601
Net investment income	6,137,898	4,717,358	12,191,945	8,987,806
Net mortuary and cemetery sales	2,626,690	2,762,610	5,501,639	5,704,603
Realized gains on investments and other assets	186,926	1,257,566	357,986	1,602,656
Other than temporary impairments on investments	(45,000)	(30,000)	(90,000)	(65,129)
Mortgage fee income	35,087,056	15,645,290	60,577,640	29,097,881
Other	252,744	220,296	442,539	725,180
Total revenues	56,528,210	36,466,418	103,851,433	70,638,598
Benefits and expenses:				
Death benefits	4,923,798	5,135,908	10,110,097	11,284,571
Surrenders and other policy benefits	277,925	307,089	1,112,990	1,015,123
Increase in future policy benefits	5,294,936	5,407,593	10,936,560	9,538,690
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,949,308	1,955,321	3,873,735	3,955,538
Selling, general and administrative expenses:				
Commissions	20,394,230	9,288,848	35,280,020	17,149,481
Salaries	6,807,364	5,717,905	13,320,207	11,902,692
Provision for loan losses and loss reserve	1,097,873	415,541	1,500,347	1,107,335
Costs related to funding mortgage loans	1,800,348	1,001,329	3,160,652	1,845,834
Other	7,706,098	6,222,289	14,704,988	12,300,160
Interest expense	847,141	378,100	1,615,885	693,642
Cost of goods and services sold-mortuaries and cemeteries	392,812	495,317	870,983	1,026,936
Total benefits and expenses	51,491,833	36,325,240	96,486,464	71,820,002
Earnings (loss) before income taxes	5,036,377	141,178	7,364,969	(1,181,404)
Income tax (provision) benefit	(1,443,345)	63,689	(2,109,754)	867,798
Net earnings (loss)	$3,593,032	$204,867	$5,255,215	$(313,606)
Net earnings (loss) per Class A Equivalent common share (1)	$0.38	$0.02	$0.55	$(0.03)
Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)	$0.36	$0.02	$0.54	$(0.03)
Weighted-average Class A equivalent common share outstanding (1)	9,540,238	9,350,042	9,518,058	9,311,131

Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	9,901,764	9,392,736	9,684,868	9,311,131

(1) Net earnings (loss) per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net earnings (loss)	$3,593,032	$204,867	$5,255,215	$(313,606)
Other comprehensive income:				
Net unrealized gains on derivative instruments	1,273,757	403,906	1,923,850	451,090
Net unrealized gains (losses) on available for sale securities	(313,677)	(344,686)	16,160	(358,655)
Other comprehensive income:	960,080	59,220	1,940,010	92,435
Comprehensive income (loss)	$4,553,112	$264,087	$7,195,225	$(221,171)

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2010	$18,357,890	$1,932,031	$19,689,993	$ 1,188,246	$21,907,579	$(3,147,271)	$59,928,468
Comprehensive income:							
Net loss	-	-	-	-	(313,606)	-	(313,606)
Other comprehensive income	-	-	-	92,435	-	-	92,435
Grant of stock options	-	-	128,688	-	-	-	128,688
Sale of treasury stock	-	-	(7,108)	-	-	147,343	140,235
Stock dividends	218	2	(29)	-	(191)	-	-
Conversion Class C to Class A	958	(959)	1	-	-	-	-
Balance at June 30, 2011	$18,359,066	$1,931,074	$19,811,545	$ 1,280,681	$21,593,782	$(2,999,928)	$59,976,220
Balance at December 31, 2011	$19,277,596	$2,027,195	$19,487,565	$ 654,443	$22,546,623	$(2,762,835)	$61,230,587
Comprehensive income:							
Net earnings	-	-	-	-	5,255,215	-	5,255,215
Other comprehensive income	-	-	-	1,940,010	-	-	1,940,010
Grant of stock options	-	-	94,436	-	-	-	94,436
Sale of treasury stock	-	-	(98,025)	-	-	256,956	158,931
Balance at June 30, 2012	$19,277,596	$2,027,195	$19,483,976	$ 2,594,453	$27,801,838	$(2,505,879)	$68,679,179

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net cash provided by operating activities	$24,431,101	$34,177,623
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(7,752,826)	(46,298,806)
Calls and maturities - fixed maturity securities	3,705,012	8,366,456
Securities available for sale:		
Purchase - equity securities	(887,917)	(3,477,093)
Sales - equity securities	1,445,020	3,457,030
Purchase of short-term investments	(6,579,805)	(32,008,356)
Sales of short-term investments	7,949,783	30,358,108
Purchase of restricted assets	(285,626)	(150,163)
Changes in assets for perpetual care trusts	(139,322)	(138,661)
Amount received for perpetual care trusts	82,529	55,590
Mortgage, policy, and other loans made	(55,936,935)	(64,347,843)
Payments received for mortgage, policy and other loans	62,940,253	52,272,804
Purchase of property and equipment	(1,191,210)	(298,209)
Disposal of property and equipment	14,768	2,250,000
Purchase of real estate	(55,682)	(218,836)
Sale of real estate	366,720	2,032,992
Reinsurance with North America Life	-	12,990,444
Cash paid for purchase of subsidiaries, net of cash received	(180,591)	-
Net cash provided by (used in) investing activities	3,494,171	(35,154,543)
Cash flows from financing activities:		
Annuity contract receipts	4,388,970	4,074,901
Annuity contract withdrawals	(6,748,612)	(7,246,850)
Repayment of bank loans on notes and contracts	(772,358)	(1,186,821)
Proceeds from borrowing on bank loans	-	3,559,026
Change in line of credit borrowings	3,600,000	-
Net cash provided by (used in) financing activities	468,000	(799,744)
Net change in cash and cash equivalents	28,393,272	(1,776,664)
Cash and cash equivalents at beginning of period	17,083,604	39,556,503
Cash and cash equivalents at end of period	$45,476,876	$37,779,839
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	$11,527,488	$4,916,403

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

Certain 2011 amounts have been reclassified to bring them into conformity with the 2012 presentation.

2) Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities – In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to balance sheet offsetting. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). This new guidance will be effective for us for interim and annual reporting periods beginning January 1, 2013, with retrospective application required. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments

The Company's investments in fixed maturity securities held-to-maturity and equity securities available for sale as of June 30, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2012:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$ 2,811,474	$ 558,830	$ -	$ 3,370,304
Obligations of states and political subdivisions	2,960,476	353,439	(6,560)	3,307,355
Corporate securities including public utilities	118,961,564	12,950,236	(1,409,269)	130,502,531
Mortgage-backed securities	5,348,172	288,026	(193,980)	5,442,218
Redeemable preferred stock	1,510,878	75,472	(8,000)	1,578,350
Total fixed maturity securities held to maturity	$ 131,592,564	$ 14,226,003	$ (1,617,809)	$ 144,200,758

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2012:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$ 20,281	$ -	$ (1,797)	$ 18,484
Common stock:				
Industrial, miscellaneous and all other	6,840,761	378,015	(1,354,827)	5,863,949
Total equity securities available for sale at estimated fair value	$ 6,861,042	$ 378,015	$ (1,356,624)	$ 5,882,433
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$ 52,498,871			
Residential construction	9,085,386			
Commercial	41,090,847			
Less: Allowance for loan losses	(4,699,410)			
Total mortgage loans on real estate and construction loans held for investment	$ 97,975,694			
Real estate held for investment - net of depreciation	$ 4,272,796			
Other real estate owned held for investment - net of depreciation	56,127,842			
Other real estate owned held for sale	5,998,740			
Total real estate	$ 66,399,378			

Policy and other loans at amortized cost - net of allowance for doubtful accounts	$	17,818,019

Short-term investments at amortized cost	$	5,562,045

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$ 2,820,159	$ 551,740	$ -	$ 3,371,899
Obligations of states and political subdivisions	3,024,425	309,986	(13,156)	3,321,255
Corporate securities including public utilities	113,648,447	10,075,071	(2,268,146)	121,455,372
Mortgage-backed securities	6,575,178	354,286	(356,900)	6,572,564
Redeemable preferred stock	1,510,878	72,639	(129,200)	1,454,317
Total fixed maturity securities held to maturity	$ 127,579,087	$ 11,363,722	$ (2,767,402)	$ 136,175,407

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

December 31, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$ 20,281	$ -	$ (1,843)	$ 18,438
Common stock:				
Industrial, miscellaneous and all other	7,250,991	363,387	(1,333,424)	6,280,954
Total equity securities available for sale at estimated fair value	$ 7,271,272	$ 363,387	$ (1,335,267)	$ 6,299,392
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$ 54,344,327			
Residential construction	17,259,666			
Commercial	48,433,147			
Less: Allowance for loan losses	(4,881,173)			
Total mortgage loans on real estate and construction loans held for investment	$ 115,155,967			
Real estate held for investment - net of depreciation	$ 3,786,780			
Other real estate owned held for investment - net of depreciation	46,398,095			
Other real estate owned held for sale	5,793,900			
Total real estate	$ 55,978,775			

Policy and other loans at amortized cost - net of allowance for doubtful accounts	$	18,463,277
Short-term investments at amortized cost	$	6,932,023

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at June 30, 2012 and December 31, 2011. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At June 30, 2012					
Obligations of states and political subdivisions	$ -	0	$ 6,560	2	$ 6,560
Corporate securities including public utilities	598,070	22	811,199	17	1,409,269
Mortgage-backed securities	54,149	1	139,831	3	193,980
Redeemable preferred stock	-	0	8,000	1	8,000
Total unrealized losses	$ 652,219	23	$ 965,590	23	$ 1,617,809
Fair Value	$ 10,581,908		$ 8,353,472		$ 18,935,380
At December 31, 2011					
Obligations of states and political subdivisions	$ -	0	$ 13,156	2	$ 13,156
Corporate securities including public utilities	1,544,224	47	723,922	12	2,268,146
Mortgage-backed securities	161,300	3	195,600	1	356,900
Redeemable preferred stock	800	1	128,400	1	129,200
Total unrealized losses	$ 1,706,324	51	$ 1,061,078	16	$ 2,767,402

Fair Value	$ 24,249,533	$ 3,762,892	$ 28,012,425

As of June 30, 2012, the average market value of the related fixed maturities was 92.1% of amortized cost and the average market value was 91.0% of amortized cost as of December 31, 2011. During the six months ended June 30, 2012 and 2011 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $90,000 and $65,129, respectively.

On a quarterly basis, the Company reviews its available-for-sale fixed investment securities related to corporate securities and other public utilities, consisting of bonds and preferred stocks that are in a loss position. The review involves an analysis of the securities in relation to historical values, and projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized. No other than temporary impairment loss was considered to exist for these fixed maturity securities as of June 30, 2012 and 2011.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at June 30, 2012 and December 31, 2011. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available-for-sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At June 30, 2012					
Non-redeemable preferred stock	$ 213	1	$ 1,584	1	$ 1,797
Industrial, miscellaneous and all other	582,951	61	771,876	30	1,354,827
Total unrealized losses	$ 583,164	62	$ 773,460	31	$ 1,356,624
Fair Value	$ 2,213,889		$ 1,005,768		$ 3,219,657
At December 31, 2011					
Non-redeemable preferred stock	$ -	-	$ 1,843	2	$ 1,843
Industrial, miscellaneous and all other	955,400	79	378,024	14	1,333,424
Total unrealized losses	$ 955,400	79	$ 379,867	16	$ 1,335,267
Fair Value	$ 2,857,082		$ 560,529		$ 3,417,611

As of June 30, 2012, the average market value of the equity securities available for sale was 70.4% of the original investment and the average market value was 71.9% of the original investment as of December 31, 2011. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations new factors, including changes in the business environment, can change the Company’s previous intent to continue holding a security. During the six months ended June 30, 2012 and 2011, there was no other than temporary decline in fair value.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized. No other than temporary impairment loss was considered to exist for these equity securities as of June 30, 2012 and 2011.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on quoted market prices.

The amortized cost and estimated fair value of fixed maturity securities at June 30, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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3) Investments (Continued)

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2012	$ 577,059	$ 582,761
Due in 2013 through 2016	19,254,387	20,942,282
Due in 2017 through 2021	50,167,095	54,454,126
Due after 2021	54,734,973	61,201,021
Mortgage-backed securities	5,348,172	5,442,218
Redeemable preferred stock	1,510,878	1,578,350
Total held to maturity	$ 131,592,564	$ 144,200,758

The amortized cost and estimated fair value of available for sale securities at June 30, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in 2012 through 2015	$ -	$ -
Due in 2013 through 2016	-	-
Due in 2017 through 2021	-	-
Due after 2021	-	-
Non-redeemable preferred stock	20,281	18,484
Common stock	6,840,761	5,863,949
Total available for sale	$ 6,861,042	$ 5,882,433

The Company's realized gains and losses, other than temporary impairments from investments and other assets, are summarized as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Fixed maturity securities held to maturity:				
Gross realized gains	$ 129,651	$ 166,465	$ 137,255	$ 319,957
Gross realized losses	-	(93,736)	(334)	(131,821)
Other than temporary impairments	(45,000)	(30,000)	(90,000)	(65,129)
Securities available for sale:				
Gross realized gains	15,372	166,872	152,580	455,123
Gross realized losses	-	(27,950)	(5,705)	(34,804)

Other than temporary impairments	-	-	-	-
Other assets:				
Gross realized gains	54,583	1,045,915	86,870	1,055,071
Gross realized losses	(12,680)	-	(12,680)	(60,870)
Other than temporary impairments	-	-	-	-
Total	$ 141,926	$ 1,227,566	$ 267,986	$ 1,537,527

The net carrying amount of held to maturity securities sold was $341,173 and $12,341,156 for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively. The net realized gain related to these sales was $7,242 and $462,267 for the six months ended June 30, 2012 and the year ended December 31, 2011, respectively. Certain circumstances lead to these decisions to sell. In 2012 and 2011, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at June 30, 2012, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Fixed maturity securities	$ 1,943,272	$ 1,986,480	$ 3,853,617	$ 3,739,257
Equity securities	68,146	59,000	131,723	126,986
Mortgage loans on real estate	2,075,430	1,699,220	4,212,006	2,986,433
Real estate	800,339	566,777	1,458,794	1,138,089
Policy and other loans	189,947	210,914	418,274	424,032
Short-term investments, principally gains on sale of mortgage loans and other	2,006,325	1,346,332	4,043,731	2,720,664
Gross investment income	7,083,459	5,868,723	14,118,145	11,135,461
Investment expenses	(945,561)	(1,151,365)	(1,926,200)	(2,147,655)
Net investment income	$ 6,137,898	$ 4,717,358	$ 12,191,945	$ 8,987,806

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $168,989 and $170,649 for six months ended June 30, 2012 and 2011, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases.

Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

Securities on deposit for regulatory authorities as required by law amounted to $9,624,656 at June 30, 2012 and $9,593,318 at December 31, 2011. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5% per annum, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors live or do business. At June 30, 2012, the Company had 31%, 13% and 12% of its mortgage loans from borrowers located in the states of Utah, California and Florida, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $4,699,410 and $4,881,173 at June 30, 2012 and December 31, 2011, respectively.

The Company establishes a valuation allowance for credit losses in its portfolio.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans

	Commercial	Residential	Residential Construction	Total
June 30, 2012 Allowance for credit losses:				
Beginning balance - January 1, 2011	$ -	$ 4,338,805	$ 542,368	$ 4,881,173
Charge-offs	-	(168,154)	(250,524)	(418,678)
Provision	-	236,915	-	236,915
Ending balance -March 31, 2012	$ -	$ 4,407,566	$ 291,844	$ 4,699,410
Ending balance: individually evaluated for impairment	$ -	$ 885,968	$ 188,285	$ 1,074,253
Ending balance: collectively evaluated for impairment	$ -	$ 3,521,598	$ 103,559	$ 3,625,157
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
Mortgage loans:				
Ending balance	$ 41,090,847	$ 52,498,871	$ 9,085,386	$ 102,675,104
Ending balance: individually evaluated for impairment	$ 2,842,962	$ 5,403,395	$ 3,712,761	$ 11,959,118
Ending balance: collectively evaluated for impairment	$ 38,247,885	$ 47,095,476	$ 5,372,625	$ 90,715,986

Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
December 31, 2011				
Allowance for credit losses:				
Beginning balance - January 1, 2011	$ -	$ 6,212,072	$ 858,370	$ 7,070,442
Charge-offs	-	(2,994,715)	(430,274)	(3,424,989)
Provision	-	1,121,448	114,272	1,235,720
Ending balance - December 31, 2011	$ -	$ 4,338,805	$ 542,368	$ 4,881,173
Ending balance: individually evaluated for impairment	$ -	$ 738,975	$ 250,524	$ 989,499
Ending balance: collectively evaluated for impairment	$ -	$ 3,599,830	$ 291,844	$ 3,891,674
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -
Mortgage loans:				
Ending balance	$ 48,433,147	$ 54,344,327	$ 17,259,666	$ 120,037,140
Ending balance: individually evaluated for impairment	$ 2,758,235	$ 4,611,995	$ 5,645,865	$ 13,016,095
Ending balance: collectively evaluated for impairment	$ 45,674,912	$ 49,732,332	$ 11,613,801	$ 107,021,045
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented:

Age Analysis of Past Due Mortgage Loans

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses
June 30, 2012								
Commercial	$572,215	$-	$-	$2,842,962	$3,415,177	$37,675,670	$41,090,847	$-
Residential	807,321	2,179,410	4,251,414	5,403,395	12,641,540	39,857,331	52,498,871	(4,407,566
Residential Construction	427,950	-	1,083,731	3,712,761	5,224,442	3,860,944	9,085,386	(291,844
Total	$1,807,486	$2,179,410	$5,335,145	$11,959,118	$21,281,159	$81,393,945	$102,675,104	$(4,699,410
December 31, 2011								
Commercial	$-	$-	$1,053,500	$2,758,235	$3,811,735	$44,621,412	$48,433,147	$-
Residential	2,478,084	2,058,261	5,500,340	4,611,995	14,648,680	39,695,647	54,344,327	(4,338,805
Residential Construction	859,651	682,532	309,651	5,645,865	7,497,699	9,761,967	17,259,666	(542,368
Total	$3,337,735	$2,740,793	$6,863,491	$13,016,095	$25,958,114	$94,079,026	$120,037,140	$(4,881,173

1) Interest income is not recognized on loans past due greater than 90 days or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2012					
With no related allowance recorded:					
Commercial	$2,842,962	$2,842,962	$-	$2,842,962	$ -
Residential	4,251,414	4,251,414	-	4,251,414	-
Residential construction	1,083,731	1,083,731	-	1,083,731	-
With an allowance recorded:					
Commercial	$-	$-	$-	$-	$ -
Residential	5,403,395	5,403,395	885,968	5,403,395	-
Residential construction	3,712,761	3,712,761	188,285	3,712,761	-
Total:					
Commercial	$2,842,962	$2,842,962	$-	$2,842,962	$ -
Residential	9,654,809	9,654,809	885,968	9,654,809	-
Residential construction	4,796,492	4,796,492	188,285	4,796,492	-
December 31, 2011					
With no related allowance recorded:					
Commercial	$3,811,735	$3,811,735	$-	$3,811,735	$ -
Residential	5,500,340	5,500,340	-	5,500,340	-
Residential construction	309,651	309,651	-	309,651	-
With an allowance recorded:					
Commercial	$-	$-	$-	$-	$ -
Residential	4,611,995	4,611,995	738,975	4,611,995	-
Residential construction	5,645,865	5,645,865	250,524	5,645,865	-
Total:					
Commercial	$3,811,735	$3,811,735	$-	$3,811,735	$ -
Residential	10,112,335	10,112,335	738,975	10,112,335	-

Residential construction	5,955,516	5,955,516	250,524	5,955,516	-

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 (Unaudited)

3) Investments (Continued)

Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days past due or on non-accrual status.

The Company's performing and non-performing mortgage loans were as follows:

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity

	Commercial		Residential		Residential Construction		Total	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	Decem 31, 2
Performing	$38,247,885	$44,621,412	$42,844,062	$44,231,992	$4,288,894	$11,304,150	$85,380,841	$100,15
Nonperforming	2,842,962	3,811,735	9,654,809	10,112,335	4,796,492	5,955,516	17,294,263	19,879
Total	$41,090,847	$48,433,147	$52,498,871	$54,344,327	$9,085,386	$17,259,666	$102,675,104	$120,03

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the Company's policy to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals $1,984,000 and $2,308,000 as of June 30, 2012 and December 31, 2011, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

Mortgage Loans on Nonaccrual Status

	As of June 30, 2012	As of December 31, 2011
Commercial	$ 2,842,962	$ 3,811,735
Residential	9,654,809	10,112,335
Residential construction	4,796,492	5,955,516
Total	$ 17,294,263	$ 19,879,586

Loan Loss Reserve

When a repurchase demand is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party investor without having to make any payments to the investor.

The following is a summary of the loan loss reserve that is included in other liabilities and accrued expenses:

	As of June 30, 2012	As of December 31, 2011
Balance, beginning of period	$ 2,337,875	$ 5,899,025
Provisions for losses	1,535,315	1,667,805
Charge-offs	(249,370)	(5,228,955)
Balance, end of period	$ 3,623,820	$ 2,337,875

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims asserted by third party investors. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims asserted by third party investors. If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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4) Stock-Based Compensation

The Company has four fixed option plans (the “1993 Plan,” the “2000 Plan”, the “2003 Plan” and the “2006 Plan”) Compensation expense for options issued of $47,218 and $64,344 has been recognized for these plans for the quarters ended June 30, 2012 and 2011, respectively, and $94,436 and $128,688 for the six months ended June 30, 2012 and 2011, respectively. Deferred tax credit has been recognized related to the compensation expense of $16,054 and $21,877 for the quarters ended June 30, 2012 and 2011, respectively, and $32,108 and $43,754 for the six months ended June 30, 2012 and 2011, respectively.

Options to purchase 342,500 shares of the Company’s common stock were granted April 13, 2012. The fair value relating to stock-based compensation is $205,175 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ended April 13, 2013.

Options to purchase 346,500 shares of the Company’s common stock were granted December 2, 2011. The fair value relating to stock-based compensation is $205,175 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2012.

Options to purchase 345,600 shares of the Company’s common stock were granted December 3, 2010. The fair value relating to stock-based compensation was $257,376 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2011.

The weighted-average fair value of each option granted in 2012 under the 2003 Plan and the 2006 Plan, is estimated at $0.52 and $0.71 for the April 13, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted in 2011 under the 2003 Plan and the 2006 Plan, is estimated at $0.52 and $0.71 for the December 2, 2011 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted in 2010 under the 2003 Plan and the 2006 Plan, is estimated at $0.77 and $0.71 for the December 3, 2010 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 65%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options. Future volatility is estimated based upon the historical volatility of the Company’s Class A common stock over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares.

5) Capital Stock

The Company has two classes of common stock with shares outstanding: Class A and Class C. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The decrease in treasury stock was the result of treasury stock being used to fund the company's 401-K and Deferred Compensation Plans.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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6) Earnings (Loss) Per Share

The basic and diluted earnings (loss) per share amounts were calculated as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Numerator:				
Net earnings (loss)	$ 3,593,032	$ 204,867	$ 5,255,215	$ (313,606)
Denominator:				
Basic weighted-average shares outstanding	9,540,238	9,350,042	9,518,058	9,311,131
Effect of dilutive securities:				
Employee stock options	361,526	42,694	166,810	-
Dilutive potential common shares	361,526	42,694	166,810	-
Diluted weighted-average shares outstanding	9,901,764	9,392,736	9,684,868	9,311,131
Basic net earnings (loss) per share	$ 0.38	$ 0.02	$ 0.55	$ (0.03)
Diluted net earnings (loss) per share	$ 0.36	$ 0.02	$ 0.54	$ (0.03)

Net earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three and six months ended June 30, 2012 and 2011, there were 1,178,207 and 1,551,552 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

7) Business Segments

Description of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company’s life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company’s independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company’s cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company’s mortgage loan segment consists of loan originations fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles of the form 10K for the year ended December 31, 2011. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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7) Business Segments (Continued)

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.

	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
For the Three Months Ended June 30, 2012					
Revenues from external customers	$ 17,481,537	$ 2,730,517	$ 36,316,156	$ -	$ 56,528,210
Intersegment revenues	2,081,734	380,565	75,882	(2,538,181)	-
Segment profit (loss) before income taxes	2,054,297	(77,463)	3,059,543	-	5,036,377
For the Three Months Ended June 30, 2011					
Revenues from external customers	$ 16,598,670	$ 3,723,533	$ 16,144,215	$ -	$ 36,466,418
Intersegment revenues	1,632,386	480,581	60,749	(2,173,716)	-
Segment profit (loss) before income taxes	338,044	662,744	(859,610)	-	141,178
For the Six Months Ended					

June 30, 2012					
Revenues from external customers	$ 35,108,886	$ 5,690,157	$ 63,052,390		$ 103,851,433
Intersegment revenues	4,160,833	757,558	151,289	(5,069,680)	-
Segment profit before income taxes	2,891,861	149,092	4,324,016	-	7,364,969
Identifiable Assets	520,595,067	112,435,625	40,261,098	(119,681,252)	553,610,538
Goodwill	391,848	285,191	-	-	677,039
For the Six Months Ended					
June 30, 2011					
Revenues from external customers	$ 33,746,991	$ 6,756,619	$ 30,134,988	$ -	$ 70,638,598
Intersegment revenues	3,699,098	948,606	121,086	(4,768,790)	-
Segment profit (loss) before income taxes	1,417,523	814,368	(3,413,295)	-	(1,181,404)
Identifiable Assets	474,375,686	111,945,435	24,999,574	(119,549,486)	491,771,209
Goodwill	391,848	285,191	-	-	677,039

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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June 30, 2012 (Unaudited)

8) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets; or

c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available-for-sale and Held-to-Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3.

Restricted Assets of the Cemeteries and Mortuaries: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Perpetual Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Call Options: The fair values along with methods used to estimate such values are disclosed in Note 3.

The items shown under Level 3 are valued as follows:

Investment-Type Insurance Contracts: Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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8) Fair Value of Financial Instruments (Continued)

Interest Rate Lock Commitments: The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are defined to be derivatives under generally accepted accounting principles and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

Bank Loan Interest Rate Swaps: Management considers the interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swaps are a derivative financial instruments carried at its fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

Mortgage Loans on Real Estate: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Other Real Estate Owned Held for Investment and Held for Sale: The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company uses market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company uses 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Other Real Estate Owned Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

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8) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at June 30, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	$ 18,484	$ 18,484	$ -	$ -
Common stock	5,863,949	5,863,949	-	-
Total securities available for sale	5,882,433	5,882,433	-	-
Restricted assets of cemeteries and mortuaries	573,857	573,857	-	-
Cemetery perpetual care trust investments	627,293	627,293	-	-
Derivatives - interest rate lock commitments	5,218,290	-	-	5,218,290
Total assets accounted for at fair value on a recurring basis	$ 12,301,873	$ 7,083,583	$ -	$ 5,218,290
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$ (50,425,076)	$ -	$ -	$ (50,425,076)
Future policy benefits - annuities	(65,511,513)	-	-	(65,511,513)
Derivatives - bank loan interest rate swaps	(107,779)	-	-	(107,779)
- call options	(71,865)	(71,865)	-	-
- interest rate lock commitments	(618,858)	-	-	(618,858)
Total liabilities accounted for at fair value on a recurring basis	$ (116,735,091)	$ (71,865)	$ -	$ (116,663,226)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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8) Fair Value of Financial Instruments (Continued)

Following is a summary of changes in the consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2011	$ (50,926,020)	$ (65,281,586)	$ 1,694,541	$ (117,812)
Total gains (losses):				
Included in earnings	500,944	(229,927)	-	-
Included in other comprehensive income (loss)	-	-	2,904,891	10,033
Balance - June 30, 2012	$ (50,425,076)	$ (65,511,513)	$ 4,599,432	$ (107,779)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at June 30, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage loans on real estate	$ 3,599,000	$ -	$ -	$ 3,599,000
Total assets accounted for at fair value on a nonrecurring basis	$ 3,599,000	$ -	$ -	$ 3,599,000

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at December 31, 2011.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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June 30, 2012 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	$ 18,438	$ 18,438		